

September 28, 2011

Associated Students of Michigan State University

In planning and performing our audit of the financial statements of Associated Students of Michigan State University as of and for the **year ended May 31, 2011**, in accordance with auditing standards generally accepted in the United States of America, we considered Associated Students of Michigan State University's **internal control** over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, **we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.**

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in Associated Students of Michigan State University's internal control to be material weaknesses:

Current Year Comment:

Loan Program:

Activity within the Loan Program was not recorded for the entire year. Material journal entries were needed to book the activity for the entire period under audit. It is recommended that activity be recorded timely and reconciled, including bank statements and loan receivables, on a monthly basis to properly reflect the activity within the Loan Program as of yearend.

Repeat Comments:

Financial Statements

Effective for the year ended May 31, 2008, Statement of Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America. The staff of the Organization does understand all information included in the annual financial statement, however, we assist in preparing the footnotes to the annual financial statements. We do not recommend any changes to this situation at this time and communicate this as required by professional standards.

Also, during the audit, there were material journal entries made by the Auditors. The Organization should ensure that all subsidiary ledgers be reconciled to the general ledger on a regular basis throughout the year.

Lastly, it is recommended that the daily operations be recorded based upon each Board of the Associated Students of Michigan State University. ASMSU is treated as a consolidated entity with four Boards making up its Organization. Each Board must maintain their own accounting activity for the year in order to report the activity on a Board by Board basis. The Boards will then be consolidated for financial statement purposes to comply with generally accepted accounting principles.

In addition, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated September 28, 2011 on the financial statements of Associated Students of Michigan State University. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows.

Current Year Comments:

Purchase Card Manual:

It was noted during our audit that the Associated Students of Michigan State University opened a purchase card for the purchase of general items and supplies. During our testing of the purchase card, it was noted that there was no manual providing details over the usage of the card. We recommend that ASMSU put in place a purchase card manual to specify the usage of the card and who has the ability to use the card.

Accounts Payable and Receivable Reporting:

It was noted during our audit that accounts payable and receivable were not recorded. Current process is to wait for the monthly bank statements from Michigan State University and record cash, revenue, and expenses on a cash basis. As a result of this process, there are several material unrecorded liabilities and receivables that need to be adjusted at year end. It is our recommendation that the accountant record accounts payable and receivable during the time of processing invoices for payment or receipt. Once the monthly bank statements are received from Michigan State University, the accountant should then reconcile cash, accounts payable, and accounts receivable accounts for what has been paid and received.

Repeat Comments:

Post Programming Reports

An important internal control the Programming Board implements is the completion of a post-programming report. The post-programming report reports the funds collected, expenses incurred, and attendance of a given event. The report is an important control in that it verifies that the expenses incurred are what the Programming Board authorized, and if there are excess funds, that they should be returned to the Programming Board. We strongly recommend that a comprehensive post-programming report be completed for all events approved by the Programming Board.

Written Accounting Manual

Currently, the Programming Board does not have a written accounting procedures manual. We recommend the Organization's accounting procedures be reduced to writing and updated annually (i.e., these procedures should include requiring back up documentation to all paid invoices).

This report is intended solely for the information and use of management, and others within the Organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

A handwritten signature in black ink, reading "Maner Coşerisan PC". The signature is written in a cursive style with a large, stylized 'M' and a long, sweeping underline.

September 28, 2011

Associated Students of Michigan State University

We have audited the financial statements of Associated Students of Michigan State University for the year ended May 31, 2011, and have issued our report thereon dated September 28, 2011. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated July 28, 2010, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on July 22, 2011.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Associated Students of Michigan State University are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2011. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no sensitive estimate(s) affecting the financial statements

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no sensitive disclosure(s) affecting the financial statements.

Difficulties Encountered in Performing the Audit

We encountered **no significant difficulties in dealing with management** in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, **certain misstatements detected as a result of audit procedures and corrected by management were material**, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 28, 2011.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Executive Committee and management of Associated Students of Michigan State University and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Maureen Costigan PC

ASSOCIATED STUDENTS OF MICHIGAN STATE UNIVERSITY

REPORT ON FINANCIAL STATEMENTS

YEAR ENDED MAY 31, 2011

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INDEPENDENT AUDITORS' REPORT

To the Executive Committee
Associated Students of Michigan State University

We have audited the accompanying statement of financial position of Associated Students of Michigan State University as of May 31, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 to the financial statements, Associated Students of Michigan State University accounts for the purchase of fixed assets by expensing them in the year of acquisition. Accounting principles generally accepted in the United States of America require that fixed assets be capitalized and depreciated over their estimated useful lives. The information needed to quantify the effects of this departure from accounting principles generally accepted in the United States of America on the financial position and results of operations of Associated Students of Michigan State University is not reasonably determinable.

Additionally, the Associated Students of Michigan State University financial statements do not disclose the functional allocation of expenses as required by accounting principles generally accepted in the United States of America.

In our opinion, except for the effects of the matters discussed in the preceding paragraphs, the financial statements referred to above present fairly, in all material respects, the financial position of Associated Students of Michigan State University as of May 31, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Maner Costerisan PC

September 28, 2011

ASSOCIATED STUDENTS OF MICHIGAN STATE UNIVERSITY
STATEMENT OF FINANCIAL POSITION
MAY 31, 2011

	Student assembly	Programming board	Loan program	Funding board	Total
ASSETS					
CURRENT ASSETS:					
Cash	\$ 257,453	\$ 90,630	\$ 47,878	\$ 51,300	\$ 447,261
Accounts receivable	88,734	-	-	-	88,734
Loans receivable	-	-	29,301	-	29,301
Prepaid expenses	33,900	-	-	-	33,900
TOTAL CURRENT ASSETS	380,087	90,630	77,179	51,300	599,196
INVESTMENTS	364,707	-	99,726	-	464,433
TOTAL ASSETS	\$ 744,794	\$ 90,630	\$ 176,905	\$ 51,300	\$ 1,063,629
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES:					
Accounts payable	\$ 159,361	\$ -	\$ -	\$ -	\$ 159,361
Accrued salaries and employee benefits	5,181	410	-	-	5,591
Deposits	1,265	-	5,005	-	6,270
TOTAL CURRENT LIABILITIES	165,807	410	5,005	-	171,222
NET ASSETS:					
Unrestricted - undesignated	578,987	-	-	51,300	630,287
Unrestricted - designated	-	90,220	171,900	-	262,120
TOTAL NET ASSETS	578,987	90,220	171,900	51,300	892,407
TOTAL LIABILITIES AND NET ASSETS	\$ 744,794	\$ 90,630	\$ 176,905	\$ 51,300	\$ 1,063,629

See notes to financial statements.

ASSOCIATED STUDENTS OF MICHIGAN STATE UNIVERSITY
STATEMENT OF ACTIVITIES
YEAR ENDED MAY 31, 2011

	Student Assembly	Programming Board	Loan Program	Funding Board	Total
REVENUE:					
Student tax	\$ 1,186,962	\$ 227,931	\$ -	\$ 113,966	\$ 1,528,859
Penalties	-	-	10,869	-	10,869
Collections	-	-	4,033	-	4,033
Yearbook	38,913	-	-	-	38,913
Legal service	48,140	-	-	-	48,140
Program	10,240	4,369	-	-	14,609
Investment income (loss)	60,619	-	18,070	-	78,689
Other income	23,543	405	485	-	24,433
In-kind contributions	46,162	21,030	1,539	8,207	76,938
TOTAL REVENUE	1,414,579	253,735	34,996	122,173	1,825,483
EXPENSES:					
Salaries	297,893	17,039	-	11,084	326,016
Contracted services	746,132	56,404	-	12,910	815,446
Supplies	33,159	11,845	-	6,558	51,562
General and administrative	14,600	-	-	-	14,600
Travel	29,499	6,449	-	36,758	72,706
Equipment and leasehold improvements	12,295	5,346	-	6,211	23,852
Promotion	66,659	6,631	-	5,812	79,102
Hospitality	22,983	37,268	-	7,082	67,333
Communication	7,506	1,213	-	-	8,719
Rent and related costs	46,162	21,030	1,539	8,207	76,938
Other	22,072	3,955	4,093	-	30,120
TOTAL EXPENSES	1,298,960	167,180	5,632	94,622	1,566,394
CHANGE IN NET ASSETS	115,619	86,555	29,364	27,551	259,089
NET ASSETS, beginning of year	437,646	36,268	147,536	11,868	633,318
NET ASSET TRANSFERS	25,722	(32,603)	(5,000)	11,881	-
NET ASSETS, end of year	<u>\$ 578,987</u>	<u>\$ 90,220</u>	<u>\$ 171,900</u>	<u>\$ 51,300</u>	<u>\$ 892,407</u>

See notes to financial statements.

ASSOCIATED STUDENTS OF MICHIGAN STATE UNIVERSITY
STATEMENT OF CASH FLOWS
YEAR ENDED MAY 31, 2011

INCREASE (DECREASE) IN CASH:

Cash flows from operating activities:	
Change in net assets	\$ 259,089
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Unrealized and realized gain on investments	(69,329)
Prepaid expenses	(147)
Accounts receivable	(66,596)
Loans receivable	(12,426)
Accounts payable	10,213
Accruals	(21,041)
Deposits	424
Deferred revenue	(235,019)
Total adjustments	(393,921)
Net cash used by operating activities	(134,832)
Cash flows from investing activities:	
Proceeds from sale of investments	1,380
NET DECREASE IN CASH	(133,452)
CASH, beginning of year	580,713
CASH, end of year	\$ 447,261

ASSOCIATED STUDENTS OF MICHIGAN STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The financial statements of the ASMSU are prepared on the accrual basis of accounting. Revenues are recorded when earned and expenditures are recorded as incurred. Fixed assets are expensed. The Student Assembly, Funding Board, and Programming Board of ASMSU are under formal budgetary control. Budgets and related amendments are approved by each Board. Appropriations are also approved by the Boards and lapse at year-end.

Loans Receivable - Loans receivable are comprised of loans due from registered students of Michigan State University. No allowance for doubtful accounts is considered necessary based on favorable collection experience.

Investments - ASMSU regards its investments as part of its long-range investment policy. Accordingly, all investments are carried at market value, and are classified as non-current assets in the accompanying financial statements. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities.

Fixed Assets - ASMSU accounts for the purchase of fixed assets by expensing them in the year of acquisition. Fixed asset purchases totaling approximately \$24,000 were expensed in the current year. Accordingly, the amounts are not capitalized as assets and depreciation has not been charged to expense. Generally accepted accounting principles require that fixed assets be capitalized and depreciated over an estimated useful life. The information needed to quantify the effects of this departure from generally accepted accounting principles on the financial position and results of operation of ASMSU is not reasonably determinable.

Deferred revenue - Student taxes are recorded as revenue in the period earned. Student taxes applicable to future periods are deferred.

Financial statement presentation - The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Associated Students of Michigan State University has no temporarily or permanently restricted activity or net assets.

NOTE 2 - NATURE OF ORGANIZATION, RISKS AND UNCERTAINTIES

Organization - The Associated Students of Michigan State University (ASMSU) represents the undergraduate students of Michigan State University (the "University") and is vested with the authority and responsibility to act in their collective interest. This responsibility is carried out through three boards, each of which is considered a separate fund. The following is a summary description of each board. For reporting purposes, the following boards are classified as:

**ASSOCIATED STUDENTS OF MICHIGAN STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - NATURE OF ORGANIZATION, RISKS AND UNCERTAINTIES (Concluded)

The Organization evaluates events and transactions that occur after year end for potential recognition or disclosure in the financial statements. These subsequent events have been considered through the auditors' opinion dated, which is the date the financial statements were available to be issued.

In the preparation of tax returns, tax positions are taken based on interpretation of federal, state and local income tax laws. Management periodically reviews and evaluates the status of uncertain tax positions and makes estimates of amounts, including interest and penalties, ultimately due or owed. No amounts have been identified, or recorded, as uncertain tax positions. Federal, state and local tax returns generally remain open for examination by the various taxing authorities for a period of three to four years.

NOTE 3 – INVESTMENTS/FAIR VALUE MEASUREMENTS

Investments at May 31, 2011 are recorded at market value and consist of the following:

	Student assembly	Loan program	Total
Money market accounts	\$ 51,836	\$ 6,452	\$ 58,288
Mutual funds	-	93,274	93,274
Equity securities (comprised primarily of publicly traded common stocks)	312,871	-	312,871
	<u>\$ 364,707</u>	<u>\$ 99,726</u>	<u>\$ 464,433</u>

Investment return is summarized as follows:

Interest and dividend income	\$ 9,360
Realized/unrealized gains - net	<u>69,329</u>
Total investment income	<u>\$ 78,689</u>

Accounting standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques giving the highest priority to readily available unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements) when market prices are not readily available or reliable. The three levels of the hierarchy are described below:

Level 1: Quoted prices in active markets for identical securities.

**ASSOCIATED STUDENTS OF MICHIGAN STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - NATURE OF ORGANIZATION, RISKS AND UNCERTAINTIES (Continued)

Student Assembly - The Student Assembly's responsibilities include the initiation, review or recommendation of University policies. The Student Assembly also appoints undergraduate representatives to various University committees, provides a forum for discussion of student concerns and provides several types of services to undergraduate students. These services include free legal counsel, advocacy services, reduced rates on copying services, allocation of office space to registered student organizations and major governing groups.

Academic Assembly - The Academic Assembly's responsibilities include representing students to the University's Academic Governance system. This system is responsible for approving all academic policies, as well as approving student regulations. In addition to their duties in the Governance system, the Assembly represents students on academic policy and access issues to the Administration, the Board of Trustees, and the University community.

Programming Board - The Programming Board is responsible for the organization and execution of education, informative or entertaining programs for the student body. Sponsored programs include theater, concerts, lectures, travel, films, and other public services. Tickets are sold for certain events and are recorded as program revenues in the statement of activities.

Loan program - Loans are available, interest free, to registered students of Michigan State University. The loan fund accounts for the issuance and collections of these loans. This program is administrated by the Student Assembly Board.

Funding Board - The Funding Board appropriates funds to registered student organizations, major governing groups and organized living units for printed media, programming events, and those projects that benefit the undergraduate students of the University. These groups apply to the Funding Board each term in which they desire funding. Funds appropriated but not utilized or unencumbered shall remain with the Funding Board as of the last class of the semester.

Financial instruments which potentially subject the organization to concentrations of significant credit risk consist of cash investments and loans receivable. The organization places its cash with Michigan State University and FDIC insured financial institutions. Although cash balances exceeded the federally insured limits at certain times during the year, they are, in the opinion of management, subject to minimal risk. Investments are divided between money markets, stocks, and mutual funds. Credit risk with respect to loans receivable is concentrated within the same geographic area (registered students) of Michigan State University but the credit risk is limited by the large number of individual students.

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

ASSOCIATED STUDENTS OF MICHIGAN STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

NOTE 3 – INVESTMENTS/FAIR VALUE MEASUREMENTS (Concluded)

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk and others.

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs reflect the Organization's own assumptions about the factors market participants would use in pricing an investment, and would be based on the best information available.

The following is a market value summary by the level of the inputs used, as of May 31, 2011, in evaluating the Organization's assets carried at value. The inputs or methodology used for valuing securities may not be an indication of the risk associated with investing in those securities.

	<u>Level 1:</u>	<u>Level 2:</u>	<u>Level 3:</u>	
Description	Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs	Total May 31, 2011
Common stocks:				
Industrials	\$ 133,992	\$ -	\$ -	\$ 133,992
Telecommunications	9,626	-	-	9,626
Consumer	64,691	-	-	64,691
Other	104,562	-	-	104,562
Total common stocks	312,871	-	-	312,871
Mutual funds:				
Fixed income funds	93,274	-	-	93,274
Total investments at fair value	<u>\$ 406,145</u>	<u>\$ -</u>	<u>\$ -</u>	406,145
Money market funds at cost				58,288
Total investments				<u>\$ 464,433</u>

**ASSOCIATED STUDENTS OF MICHIGAN STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 - RELATED PARTY TRANSACTIONS

The following boards maintain a non-interest bearing cash account with Michigan State University. The May 31, 2011 balances of these accounts are:

Student assembly	\$ 257,453
Programming board	90,630
Funding board	<u>51,300</u>
 Total non-interest bearing cash	 <u><u>\$ 399,383</u></u>

The University uses these cash accounts to process payments to third parties on behalf of ASMSU. ASMSU occupies, without charge, certain premises located in University owned buildings. The fair market value of the premises occupied by ASMSU amounted to \$76,938 and is recorded in the statement of activities.

The Council of Graduate Students (COGS) maintains a deposit of \$4,500 with the Associated Students of Michigan State University. This deposit was established to provide loans for graduate students through Associated Students of Michigan State University.

NOTE 5 - NET ASSETS

The Programming Board net assets of \$90,220 represent cumulative program revenues in excess of related expenses which have been designated for the use of the activity departments which generated such cumulative excess amounts. The Loan Program net assets of \$171,900 represent funds designated for providing interest free loans to registered students of Michigan State University.

NOTE 6 - STUDENT TAXES

ASMSU has been vested with authority to levy a \$18.00 tax on all undergraduate students registered each semester of which \$1.25 is restricted for ASMSU's readership program. Students affirming they will not use any services provided by ASMSU may receive a refund of the tax. The Student Assembly appropriates funds (student taxes) to the Programming and Funding boards.